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## **China Gold International Resources Corp. Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations Nine months ended September 30, 2019 (Stated in U.S. dollars, except as otherwise noted)**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended September 30, 2019. (Stated in U.S. dollars, except as otherwise noted)*

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The following Management Discussion and Analysis of financial condition and results of operations (“MD&A”) is prepared as of November 14, 2019. It should be read in conjunction with the consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as “China Gold International”, the “Company”, “we” or “our” as the context may require) for the three and nine months ended September 30, 2019 and the three and nine months ended September 30, 2018, respectively. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to the Company’s plans, objectives, expectations and intentions, which are based on the Company’s current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in the Company’s Annual Information Form (“Annual Information Form” or “AIF”) dated March 26, 2019 on SEDAR at [www.sedar.com](http://www.sedar.com). For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the Company, please refer to the sections titled “Forward-Looking Statements” and “Risk Factors” and to discussions elsewhere within this MD&A. China Gold International’s business, financial condition or results of operations could be materially and adversely affected by any of these risks.

## **FORWARD-LOOKING STATEMENTS**

Certain statements made herein, other than statements of historical fact relating to the Company, represent forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “contemplates”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to”, “should” or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward-looking information includes, among other things; China Gold International’s production estimates, business strategies and capital expenditure plans; the development and expansion plans and schedules for the CSH Mine and the Jiama Mine; China Gold International’s financial condition; the regulatory environment as well as the general industry outlook; general economic trends in China; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of China Gold International and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material change in China Gold International’s operations or in foreign exchange rates, the prevailing price of gold, copper and other non-ferrous metal products; the absence of lower-than-anticipated mineral recovery or other production problems; effective income and other tax rates and other assumptions underlying China Gold International’s financial performance as stated in the Company’s technical reports for its CSH Mine and Jiama Mine; China Gold International’s ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labor relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, litigation or arbitration and adverse changes in government regulation; the availability and accessibility of financing to China Gold International; and the performance by counterparties of the terms and conditions of all contracts to which China Gold International and its subsidiaries are a party. The forward-looking information is also based on the assumption that none of the risk factors identified in this MD&A or in the AIF that could cause actual results to differ materially from the forward-looking information actually occurs.

Forward-looking information contained herein as of the date of this MD&A is based on the opinions, estimates and assumptions of management. There are a number of important risks, uncertainties and other factors that could cause actual actions, events or results to differ materially from those described as forward-looking information. China Gold International disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates, opinions or assumptions, future events or results, or otherwise except to the extent required by law. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking information in this MD&A is expressly qualified by this cautionary statement. The reader is cautioned not to place undue reliance on forward-looking information.

## THE COMPANY

### *Overview*

China Gold International is a gold and base metal mining company based in Vancouver, Canada. The Company's main business involves the operation, acquisition, development and exploration of gold and base metal properties.

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("CSH Mine" or "CSH"), located in Inner Mongolia, China and the Jiama Copper-Gold Polymetallic Mine ("Jiama Mine" or "Jiama"), located in Tibet, China. China Gold International holds a 96.5% interest in the CSH Mine, while its Chinese joint venture ("CJV") partner holds the remaining 3.5% interest. The Company owns a 100% interest in the Jiama Mine, which hosts a large scale copper-gold polymetallic deposit containing copper, gold, molybdenum, silver, lead and zinc metals.

China Gold International's common shares are listed on the Toronto Stock Exchange ("TSX") and The Stock Exchange of Hong Kong Limited ("HKSE") under the symbol CGG and the stock code 2099, respectively. Additional information about the Company, including the Company's Annual Information Form, is available on SEDAR at [sedar.com](http://sedar.com) as well as Hong Kong Exchange News at [hkexnews.hk](http://hkexnews.hk).

### *Performance Highlights*

#### *Three months ended September 30, 2019*

- Revenue increased by 17% to US\$186.4 million from US\$158.8 million for the same period in 2018.
- Mine operating earnings decreased by 25% to US\$26.3 million from US\$35.1 million for the same period in 2018.
- Net loss after tax decreased from US\$4.6 million for the 2018 period to US\$0.3 million for the same period in 2019.
- Total gold production increased by 24% to 63,113 ounces from 50,860 ounces for the same period in 2018.
- Total copper production increased by 11% to 18,347 tonnes (approximately 40.4 million pounds) from 16,515 tonnes (approximately 36.4 million pounds) for the same period in 2018.

#### *Nine months ended September 30, 2019*

- Revenue increased by 21% to US\$495.1 million from US\$407.6 million for the same period in 2018.
- Mine operating earnings decreased by 37% to US\$48.8 million from US\$77.4 million for the same period in 2018.
- Net loss after tax increased from US\$2.2 million for the 2018 period to US\$27.8 million for the same period in 2019.
- Total gold production increased by 7% to 162,640 ounces from 151,502 ounces for the same period in 2018.
- Total copper production increased by 32% to 49,306 tonnes (approximately 108.7 million pounds) from 37,313 tonnes (approximately 82.3 million pounds) for the same period in 2018.

## OUTLOOK

- Projected gold production of 210,000 ounces in 2019.
- Projected copper production of 132 million pounds in 2019.
- The Company will continue to leverage the technical and operating experience of the Company's substantial shareholder, China National Gold Group Corporation ("CNG"), to improve operations at its mines. In addition, the Company continues to focus its efforts on increasing production while minimizing costs at both mines.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining acquisition opportunities, namely projects outside of China.

## RESULTS OF OPERATIONS

### Selected Quarterly Financial Data

	Quarter ended							
	2019			2018			2017	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
<i>(US\$ in thousands except per share)</i>								
Revenue	<b>186,375</b>	163,166	145,592	162,957	158,841	142,087	106,685	133,312
Cost of sales	<b>160,094</b>	155,876	130,324	129,693	123,743	106,294	100,131	87,621
Mine operating earnings	<b>26,281</b>	7,290	15,268	33,264	35,098	35,793	6,554	45,691
General and administrative expenses	<b>11,762</b>	9,532	13,495	16,701	12,666	12,674	9,383	15,116
Exploration and evaluation expenses	<b>368</b>	175	115	(4)	134	251	78	176
Research and development expenses	<b>4,308</b>	4,541	4,856	7,374	3,068	2,800	2,553	4,193
Income (Loss) from operations	<b>9,843</b>	(6,958)	(3,198)	9,193	19,230	20,068	(5,460)	26,206
Foreign exchange (loss) gain	<b>(9,616)</b>	(7,414)	5,288	(1,677)	(11,024)	(7,580)	4,463	(492)
Finance costs	<b>10,560</b>	11,482	10,088	11,224	10,909	11,214	11,128	5,748
Profit (loss) before income tax	<b>2,380</b>	(24,817)	(7,137)	(3,346)	(998)	3,839	(465)	22,350
Income tax (credit) expense	<b>(2,701)</b>	(1,866)	(2,563)	(1,351)	3,591	3,449	(2,469)	2,394
Net (loss) profit	<b>(321)</b>	(22,951)	(4,574)	(1,995)	(4,589)	390	2,004	19,956
Basic (loss) earnings per share (cents)	<b>(0.17)</b>	(5.79)	(1.13)	(0.49)	(1.23)	0.05	0.45	4.91
Diluted earnings (loss) per share (cents)	<b>N/A</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The Company's mining operations are impacted by the harsh winter conditions and as such, performance in the first quarter of the year is usually lower as compared with other quarters in the year.

### Selected Quarterly and Annual Production Data and Analysis

CSH Mine	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Gold sales (US\$ million)	<b>62.27</b>	39.96	<b>152.22</b>	134.65
Realized average price (US\$) of gold per ounce	<b>1,509</b>	1,197	<b>1,381</b>	1,278
Gold produced (ounces)	<b>43,829</b>	33,468	<b>112,331</b>	103,390
Gold sold (ounces)	<b>41,330</b>	33,374	<b>110,189</b>	105,334
Total production cost (US\$ per ounce)	<b>1,289</b>	1,238	<b>1,325</b>	1,117
Cash production cost <sup>(1)</sup> (US\$ per ounce)	<b>820</b>	805	<b>838</b>	724

(1) Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

Gold production at the CSH Mine increased by 31% to 43,829 ounces for the three months ended September 30, 2019 compared to 33,468 ounces for the three months ended September 30, 2018. The increase in gold production is attributed to higher volumes and higher grade of ore mined during the third quarter of 2019 as compared to 2018.

The total production cost of gold for the three months ended September 30, 2019 increased to US\$1,289 per ounce compared to US\$1,238 for the three month 2018 period. The cash production cost of gold for the three months ended September 30, 2019 slightly increased compared with the same period in 2018.

<b>Jiama Mine</b>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Copper sales (US\$ in millions)	<b>88.28</b>	87.17	<b>234.27</b>	197.81
Realized average price <sup>1</sup> (US\$) of copper per pound after smelting fee discount	<b>2.18</b>	2.26	<b>2.11</b>	2.36
Copper produced (tonnes)	<b>18,347</b>	16,515	<b>49,306</b>	37,313
Copper produced (pounds)	<b>40,447,290</b>	36,409,235	<b>108,700,290</b>	82,262,054
Copper sold (tonnes)	<b>18,711</b>	17,384	<b>50,136</b>	36,617
Copper sold (pounds)	<b>41,249,785</b>	38,325,511	<b>110,530,961</b>	80,726,808
Gold produced (ounces)	<b>19,284</b>	17,392	<b>50,309</b>	48,112
Gold sold (ounces)	<b>19,209</b>	19,366	<b>51,606</b>	44,604
Silver produced (ounces)	<b>1,012,415</b>	993,286	<b>2,833,166</b>	2,224,824
Silver sold (ounces)	<b>998,245</b>	1,008,220	<b>2,930,788</b>	2,152,984
Total production cost <sup>2</sup> (US\$) of copper per pound	<b>2.92</b>	2.50	<b>3.05</b>	3.08
Total production cost <sup>2</sup> (US\$) of copper per pound after by-products credits <sup>4</sup>	<b>2.06</b>	1.71	<b>2.23</b>	2.21
Cash production cost <sup>4</sup> (US\$) per pound of copper	<b>2.29</b>	1.90	<b>2.38</b>	2.32
Cash production cost <sup>3</sup> (US\$) of copper per pound after by-products credits <sup>4</sup>	<b>1.43</b>	1.11	<b>1.56</b>	1.44

<sup>1</sup> A discount factor of 18.6% to 29.6% is applied to the copper benchmark price to compensate the refinery costs incurred by the buyers. The discount factor is higher if the grade of copper in copper concentrate is below 18%. The industry standard of copper content in copper concentrate is between 18-20%.

<sup>2</sup> Production costs include expenditures incurred at the mine sites for the activities related to production including mining, processing, mine site G&A and royalties etc.

<sup>3</sup> Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

<sup>4</sup> By-products credit refers to the sales of gold and silver contained in the copper concentrate during the corresponding period.

During the three months ended September 30, 2019, the Jiama Mine produced 18,347 tonnes (approximately 40.4 million pounds) of copper, an increase of 11% compared with the three months ended September 30, 2018 (16,515 tonnes, or 36.4 million pounds). The increase in production is due to higher recovery rates of copper.

During the three months ended September 30, 2019, both total production cost of copper per pound after by-products and cash production cost of copper per pound after by-product increased as compared to the same period in 2018 due to lower grades of ore from the open-pit mine. The Jiama Mine is currently developing its underground mine which is expected to produce higher grade ore, with anticipated completion by the end of 2021.

## **Review of Quarterly Data**

### **Three months ended September 30, 2019 compared to three months ended September 30, 2018**

**Revenue** of US\$186.4 million for the third quarter of 2019 increased by US\$27.6 million or 17%, from US\$158.8 million for the same period in 2018.

Revenue from the CSH Mine was US\$62.4 million, an increase of US\$22.4 million, compared to US\$40.0 million for the same period in 2018. Realized average gold price increased by 26% from US\$1,197/oz in Q3 2018 to US\$1,509/oz in Q3 2019. Gold sold by the CSH Mine was 41,330 ounces (gold produced: 43,829 ounces), compared to 33,374 ounces (gold produced: 33,468 ounces) for the same period in 2018.

Revenue from the Jiama Mine was US\$124.0 million, an increase of US\$5.1 million, compared to US\$118.9 million for the same period in 2018. Total copper sold was 18,711 tonnes (41.2 million pounds) for the three months ended September 30, 2019, an increase of 8% from 17,384 tonnes (38.3 million pounds) for the same period in 2018.

**Cost of sales** of US\$160.1 million for the quarter ended September 30, 2019, an increase of US\$36.4 million or 29% from US\$123.7 million for the same period in 2018. Cost of sales as a percentage of revenue for the Company increased from 78% to 86% for the three months ended September 30, 2018 and 2019, respectively. Cost of sales was impacted by many production factors such as grade of ore, recovery rates, stripping ratio and etc. Refer to the sections below for details of production factors for each individual mine.

**Mine operating earnings** of US\$26.3 million for the three months ended September 30, 2019, a decrease of 25%, or US\$8.8 million, from US\$35.1 million for the same period in 2018. Mine operating earnings as a percentage of revenue decreased from 22% to 14% for the three months ended September 30, 2018 and 2019, respectively.

**General and administrative expenses** decreased by US\$0.9 million, from US\$12.7 million for the quarter ended September 30, 2018 to US\$11.8 million for the quarter ended September 30, 2019. The decrease was due to the Company's implementation of an overall cost reduction program.

**Research and development expenses** of US\$4.3 million for the three months ended September 30, 2019, increased from US\$3.1 million for the comparative 2018 period. The increase in 2019 was due to the Company's R&D activities in relation to increasing recovery rates and optimizing processing and mining.

**Income from operations** of US\$9.8 million for the third quarter of 2019, decreased by US\$9.4 million, from US\$19.2 million for the same period in 2018.

**Finance costs** of US\$10.6 million for the three months ended September 30, 2019, decreased by US\$0.3 million compared to US\$10.9 million for the same period in 2018. During the three months ended September 30, 2019, interest payments of US\$86,000 (2018: nil) were capitalized for borrowing costs related to the Jiama Mine expansion.

**Foreign exchange loss** of US\$9.6 million for the three months ended September 30, 2019, decreased from US\$11.0 million for the same period in 2018. The loss was attributed to changes in the RMB/USD exchange rates and the revaluation of monetary items held in Chinese RMB.

**Interest and other income** of US\$1.5 million for the three months ended September 30, 2019, decreased from US\$1.7 million for the same period in 2018.

**Gain on the recognition of other assets** of US\$11.2 million was recorded during the three months ended September 30, 2019 in relation to a cooperation agreement between the Group and a third-party real estate developer. Pursuant to the Cooperation Agreement, the Group agreed to transfer the land use right for the development and the Developer agreed to compensate the Group by transferring a portion of one building and carparks. During the period, the Group derecognized the right-of-use assets, and recognized the right to receive the new premise. The project is still under development and is expected to be completed by May 31, 2020.

**Income tax expense** of US\$2.7 million for the quarter ended September 30, 2019, decreased by US\$0.9 million from US\$3.6 million for the comparative period in 2018. During the current quarter, the Company had US\$1.8 million of deferred tax expense compared to US\$2.8 million for the same period in 2018.

**Net loss** of US\$0.3 million for the three months ended September 30, 2019, decreased by US\$4.3 million from US\$4.6 million for the three months ended September 30, 2018.

#### *Nine months ended September 30, 2019 compared to nine months ended September 30, 2018*

**Revenue** of US\$495.1 million for the nine months ended September 30, 2019 increased by US\$87.5 million or 21%, from US\$407.6 million for the same period in 2018.

Revenue from the CSH Mine was US\$152.2 million, an increase of US\$17.5 million, compared to US\$134.7 million for the same period in 2018. Gold sold by the CSH Mine was 110,189 ounces (gold produced: 112,331 ounces), compared to 105,344 ounces (gold produced: 103,390 ounces) for the same period in 2018.

Revenue from the Jiama Mine was US\$342.9 million, an increase of US\$70.0 million, compared to US\$272.9 million for the same period in 2018. Total copper sold was 50,136 tonnes (110.5 million pounds) for the nine months ended September 30, 2019, an increase of 37% from 36,617 tonnes (80.7 million pounds) for the same period in 2018.

**Cost of sales** of US\$446.3 million for the nine months ended September 30, 2019, an increase of US\$116.1 million or 35% from US\$330.2 million for the same period in 2018. The overall increase was primarily attributed to a 39% increase in cost of sales for the Jiama Mine which related to the 32% increase in copper production volumes. Cost of sales for the CSH Mine increased by approximately 28% in 2019 due to lower grades of ore mined and increased amortization of mine development costs. Cost of sales as a percentage of revenue for the Company increased from 81% to 90% for the nine months ended September 30, 2018 and 2019, respectively. Cost of sales was impacted by many production factors such as grade of ore, recovery rates, stripping ratio and etc. Refer to the sections below for details of production factors for each individual mine.

**Mine operating earnings** of US\$48.8 million for the nine months ended September 30, 2019, a decrease of 37%, or US\$28.6 million, from US\$77.4 million for the same period in 2018. Mine operating earnings as a percentage of revenue decreased from 19% to 10% for the nine months ended September 30, 2018 and 2019, respectively.

**General and administrative expenses** increased by US\$0.1 million, from US\$34.7 million for the nine months ended September 30, 2018 to US\$34.8 million for the nine months ended September 30, 2019.

**Research and development expenses** of US\$13.7 million for the nine months ended September 30, 2019, increased from US\$8.4 million for the comparative 2018 period. The increase in 2019 was due to the Company's R&D programs related to optimization of mining and mineral processing.

**Loss from operations** of US\$0.3 million for the nine months ended September 30 2019, decreased by US\$34.1 million, compared to an income of US\$33.8 million for the same period in 2018.

**Finance costs** of US\$32.1 million for the nine months ended September 30, 2019, decreased by US\$1.2 million compared to US\$33.3 million for the same period in 2018. During the nine months ended September 30, 2019, interest payments of US\$0.5 million (2018: nil) were capitalized for borrowing costs related to the Jiama Mine expansion.

**Foreign exchange loss** of US\$11.7 million for the nine months ended in September 30, 2019, decreased from US\$14.1 million for the same period in 2018. The loss was attributed to changes in the RMB/USD exchange rates and the revaluation of monetary items held in Chinese RMB.

**Interest and other income** of US\$3.4 million for the nine months ended September 30, 2019 decreased from US\$15.9 million for the same period in 2018. The 2018 amount was primarily attributed to the sales of low grade product from the Jiama Mine.

**Gain on the recognition of other assets** of US\$11.2 million was recorded during the nine months ended September 30, 2019 in relation to a cooperation agreement between the Group and a third-party real estate developer. Pursuant to the Cooperation Agreement, the Group agreed to transfer the land use right for the development and the Developer agreed to compensate the Group by transferring a portion of one building and carparks. During the period, the Group derecognized the right-of-use assets, and recognized the right to receive the new premise. The project is still under development and is expected to be completed by May 31, 2020.

**Income tax credit** of US\$1.7 million for the nine months ended September 30, 2019, compared to an income tax expense of US\$4.6 million for the same period in 2018. During the current nine month period, the Company had US\$2.6 million of deferred tax credit compared to US\$3.6 million of deferred tax expense for the same period in 2018.

**Net loss** of US\$27.8 million for the nine months ended September 30, 2019, increased by US\$25.6 million from US\$2.2 million for the comparative 2018 period.

## **NON-IFRS MEASURES**

The cash cost of production is a measure that is not in accordance with IFRS.

The Company has included cash production cost per ounce gold data to supplement its consolidated financial statements, which are presented in accordance with IFRS. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance, operating results or financial condition prepared in accordance with IFRS. The Company has included cash production cost per ounce data because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flow. The measure is not necessarily indicative of operating results, cash flow from operations, or financial condition as determined under IFRS. Cash production costs are determined in accordance with the Gold Institute's Production Cost Standard. Although the Gold Institute ceased operations in 2002, the Company believes that the Gold Institute's Production Cost Standard continues to represent the market accepted standard for reporting cash cost of production. However, different issuers may apply slight deviations to the standard so the cash production costs disclosed by the Company may not be directly comparable to other issuers.

The following tables provide a reconciliation of cost of sales to the cash costs of production in total dollars and in dollars per gold ounce for the CSH Mine or per copper pound for the Jiama Mine:

#### CSH Mine (Gold)

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce
Total Cost of sales	<b>53,256,458</b>	<b>1,289</b>	41,314,821	1,238	<b>146,038,507<sup>1</sup></b>	<b>1,325</b>	117,671,812	1,117
Adjustment – Depreciation & depletion	<b>(19,370,586)</b>	<b>(469)</b>	(14,432,598)	(433)	<b>(53,707,501)</b>	<b>(487)</b>	(41,409,728)	(393)
Total cash production costs	<b>33,885,872</b>	<b>820</b>	26,882,223	805	<b>92,331,006</b>	<b>838</b>	76,262,084	724

<sup>1</sup> Inventory write down of US\$4.3 million was provided in total cost of sales for the nine months ended September 2019, which is excluded from this figure.

#### Jiama Mine (Copper with by-products credits)

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	US\$	US\$ Per Pound	US\$	US\$ Per Pound	US\$	US\$ Per Pound	US\$	US\$ Per Pound
Total Cost of sales	<b>106,838,119</b>	<b>2.59</b>	82,428,160	2.15	<b>296,063,235</b>	<b>2.68</b>	212,495,789	2.63
General and administrative expenses	<b>9,287,870</b>	<b>0.23</b>	10,262,257	0.27	<b>27,706,304</b>	<b>0.25</b>	27,873,425	0.35
Research and development expenses	<b>4,307,856</b>	<b>0.10</b>	3,067,678	0.08	<b>13,704,766</b>	<b>0.12</b>	8,420,892	0.10
Total production cost	<b>120,433,845</b>	<b>2.92</b>	95,758,095	2.50	<b>337,474,305</b>	<b>3.05</b>	248,790,106	3.08
Adjustment – Depreciation & depletion	<b>(18,130,327)</b>	<b>(0.44)</b>	(16,254,777)	(0.42)	<b>(53,109,947)</b>	<b>(0.48)</b>	(46,288,240)	(0.57)
Adjustment – Amortization of intangible assets	<b>(7,705,197)</b>	<b>(0.19)</b>	(6,843,680)	(0.18)	<b>(21,183,494)</b>	<b>(0.19)</b>	(15,434,544)	(0.19)
Total cash production costs	<b>94,598,321</b>	<b>2.29</b>	72,659,638	1.90	<b>263,180,864</b>	<b>2.38</b>	187,067,322	2.32
By-products credits	<b>(35,522,804)</b>	<b>(0.86)</b>	(30,290,195)	(0.79)	<b>(90,633,404)</b>	<b>(0.82)</b>	(70,763,114)	(0.88)
Total cash production costs after by-products credits	<b>59,075,517</b>	<b>1.43</b>	42,369,443	1.11	<b>172,547,460</b>	<b>1.56</b>	116,304,208	1.44

The adjustments above include depreciation and depletion, amortization of intangible assets, and selling expenses included in total production costs.

The following table provides a breakdown of on-site production costs used to calculate cost of goods sold based on production volumes for the period. Onsite production costs are also used to calculate unit cost information for the three and nine months ended September 30, 2019 and 2018:

CSH Mine	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
	US\$	US\$	US\$	US\$	
Mining ore cost	6,447,230	2,304,707	17,750,194	9,956,964	F
Mining waste cost	12,588,015	8,670,723	36,027,994	37,583,071	G
Other mining costs	256,109	419,233	1,190,588	1,749,828	H
Process Cost - reagents	6,094,707	4,779,735	15,214,531	14,395,940	J
Other process costs	1,530,385	1,599,066	5,291,687	5,620,895	K
Process cost - crusher	1,945,656	1,210,568	5,254,665	4,672,480	L
General and administrative expenses	2,543,639	1,868,758	5,368,151	5,034,376	
Cash Operating cost	31,405,741	20,852,790	86,097,810	79,013,554	
Mining and resource tax	2,208,300	1,378,423	5,354,315	4,624,828	
Other fees and taxes	1,508,068	1,477,185	2,819,713	3,443,705	
Total Cash cost	35,122,109	23,708,398	94,271,838	87,082,087	
Depreciation – Operations	5,743,150	5,261,308	18,856,560	16,563,951	
Amortization – Mine development	14,342,433	7,401,382	35,979,893	30,720,956	
Total Onsite production cost	55,207,692	36,371,088	149,108,291	134,366,994	T
Inventory write-down	-	-	4,300,000	-	U
Ratio of Inventory (production cost) transfer to cost of goods sold	96%	114%	98%	88%	V
Total Cost of Sales	53,256,458	41,314,821	150,230,877	117,671,812	=(T* V)+U

The following table provides certain unit cost information on a cost of production per tonne of ore processed (non-IFRS) basis for the CSH Mine for the three and nine months ended September 30, 2019 and 2018:

CSH Mine	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
	US\$	US\$	US\$	US\$	
Ore mined and placed on pad (tonnes)	4,031,723	1,959,973	10,923,636	7,058,982	A
Average grade of ore (grams per tonne)	0.58	0.43	0.54	0.55	B
Recoverable gold (ounces)	44,203	15,611	113,988	73,053	C
Ending gold inventory (ounces)	171,938	178,553	171,938	178,553	D
Waste rock removed (tonnes)	18,534,202	19,910,536	47,991,678	48,340,340	E
Mining cost US\$	6,447,230	2,304,707	17,750,194	9,956,964	F
Waste cost US\$	12,588,015	8,670,723	36,027,994	37,583,071	G
Other mining costs US\$	256,109	419,233	1,190,588	1,749,828	H
Total mining costs US\$	19,291,354	11,394,663	54,968,776	49,289,863	I
Process Cost - reagents US\$	6,094,707	4,779,735	15,214,531	14,395,940	J
Other process costs US\$	3,476,041	2,809,634	10,546,352	10,293,375	K
Total process cost US\$	9,570,748	7,589,369	25,760,883	24,689,315	L
Cost of mining per tonne of ore	1.60	1.18	1.62	1.41	= F/A
Cost of mining waste per tonne of ore	3.12	4.42	3.30	5.32	= G/A
Other mining costs per tonne of ore	0.06	0.21	0.11	0.25	= H/A
Total mining costs per tonne of ore	4.78	5.81	5.03	6.98	
Cost of reagents per tonne of ore	1.51	2.44	1.39	2.04	= J/A
Other processing costs per tonne of ore	0.86	1.43	0.97	1.46	= K/A
Total processing cost per tonne of ore	2.37	3.87	2.36	3.50	

## MINERAL PROPERTIES

### The CSH Mine

The CSH Mine is located in Inner Mongolia Autonomous Region of China (Inner Mongolia). The property hosts two low-grade, near surface gold deposits, along with other mineralized prospects. The main deposit is called the Northeast Zone (the “Northeast Zone”), while the second, smaller deposit is called the Southwest Zone (the “Southwest Zone”).

The CSH Mine is owned and operated by Inner Mongolia Pacific Mining Co. Limited, a Chinese Joint Venture in which the Company holds a 96.5% interest and Ningxia Nuclear Industry Geological Exploration Institution holds the remaining 3.5%.

The CSH Mine has two open-pit mining operations and has a mining and processing capacity of 60,000 tpd.

### Production Update

CSH Mine	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Ore mined and placed on pad (tonnes)	4,031,723	1,959,973	10,923,636	7,058,982
Average ore grade (g/t)	0.58	0.43	0.54	0.55
Recoverable gold (ounces)	44,203	15,611	113,988	73,053
Ending ore inventory (ounces)	171,938	178,553	171,938	178,553
Waste rock removed (tonnes)	18,534,202	19,910,536	47,994,678	48,340,340

For the three months ended September 30, 2019, the total amount of ore placed on the leach pad was 4.0 million tonnes, with total contained gold of 44,203 ounces (1,375 kilograms). The overall accumulative project-to-date gold recovery rate has slightly increased to approximately 54.28% at the end of September 2019 from 54.19% at the end of June 2019. Of which, gold recovery from the phase I heap is 59.77% and; gold recovery from the Phase II heap is 47.41% at September 30, 2019.

In the second half of 2017, there were a series of wall failures on one side of the north-east pit at the CSH Mine which led to short term interruptions of mining activities. The Company curtailed production in certain areas of the pit while it conducted studies to address the slope stability issues and remediation plans for the long term mine plan, which included optimization studies for pit limit, haul road design and mining production schedule for the new pit slope angle.

Based on the finalized studies, the Company has adopted an updated pit design for the north-east pit in accordance with the pit limit optimization study carried out by Changchun Gold Design Institute based on the amended ultimate pit limit slopes. The new pit design is conducted based on the Mineral Reserves estimate for the CSH Mine reported as of December 31, 2018. Accordingly, the life of mine updated production schedule is seven years.

### Exploration

CSH conducted a research project based on the geological exploration results completed in the recent years, with regional geological mapping of 30 km<sup>2</sup>, geological investigations of 129 km, aeromagnetic survey of 78 km<sup>2</sup>, as well as 1,200 samples / 6 km of geochemical survey, 11,307 +/-m of cores from 42 drill holes, detailed logging of 9,373+/-m of cores from 28 drill holes and infrared spectral alteration analysis

### Mineral Resource Update

CSH Mine Resources by category, Northeast and Southwest pits combined at December 31, 2018 under NI 43-101:

Type	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Measured	12.34	0.62	7.60	0.24
Indicated	124.12	0.62	76.63	2.46
M+I	136.46	0.62	84.24	2.71
Inferred	80.36	0.52	41.51	1.33

## Mineral Reserves Update

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2018 under NI 43-101:

Type	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Proven	10.59	0.63	6.72	0.22
Probable	66.49	0.65	43.23	1.39
<b>Total</b>	<b>77.08</b>	<b>0.65</b>	<b>49.96</b>	<b>1.61</b>

### The Jiama Mine

The Company acquired the Jiama Mine on December 1, 2010. Jiama is a large copper-gold polymetallic deposit containing copper, gold, silver, molybdenum, and other metals located in the Gandise metallogenic belt in Tibet Autonomous Region of China.

The Jiama Mine has both underground mining and open-pit mining operations. Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011. Phase II of the Jiama Mine commenced mining operations in 2018 with 44,000 tpd design capacity.

## Production Update

Jiama Mine	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Ore processed (tonnes)	<b>3,932,431</b>	3,372,400	<b>10,169,419</b>	7,204,141
Average copper ore grade (%)	<b>0.58</b>	0.68	<b>0.62</b>	0.71
Copper recovery rate (%)	<b>80</b>	72	<b>78</b>	73
Average gold ore grade (g/t)	<b>0.26</b>	0.30	<b>0.27</b>	0.39
Gold recovery rate (%)	<b>59</b>	54	<b>56</b>	53
Average silver ore grade (g/t)	<b>16.26</b>	15.39	<b>16.67</b>	17.21
Silver recovery rate (%)	<b>49</b>	60	<b>52</b>	56

According to the mining plan for the Phase II expansion, the Jiama Mine began to produce low grade ore from the open pit mine. As a result, the Company expected the average ore grade to be lower than previous years which used higher grade ore from underground mining only. Production cost was also expected to be higher since the commencement of commercial production of Phase II due to the lower grade of ore and lower recovery rates.

During 2019, average metal recovery rates began to improve and were higher compared to 2018, as the ratio of oxide ore from the open pit has gradually decreased.

## Exploration

In 2019, the Company initiated a large-scale exploration project for targeted resources and serving to production. The project includes surface drill of 33,390 +/-m, 25 drills, 500 +/- m of 1 hydrogeological drill and 800 +/- m of 2 engineering geological drills. During the third quarter of 2019, surface drill of 18,215.63 +/-m, 20 drills were completed, totaling 59.96% of the annual program.

## Mineral Resources Estimate

An NI 43-101 compliant mineral resource estimate was independently completed by Mining One Pty Ltd. in November 2013, based on information collected up to November 12, 2012. The drilling programs subsequent to November 2012, including an extensive drill program conducted in 2013, will be included in future updates of the Mineral Resources and Reserves.

Mining One Pty Ltd. noted that gold and silver mineralization within the ore body had a significantly higher spatial variability than the other elements. This classification takes into account the proposed large scale mining techniques where Au and Ag will only be credits to the overall products from the operations. Mining One Pty Ltd has assumed that Au and Ag will not be assigned a single cut-off grade for a selected mining block and will be mined in conjunction with the other elements.

### Jiama Project - Cu, Mo, Pb, Zn ,Au, and Ag Mineral Resources under NI 43-101 Reported at a 0.3% Cu Equivalent Cut off grade\*, as of December 31, 2018

Class	Quantity Mt	Cu %	Mo %	Pb %	Zn %	Au g/t	Ag g/t	Cu Metal (kt)	Mo Metal (kt)	Pb Metal (kt)	Zn Metal (kt)	Au Moz	Ag Moz
Measured	94.9	0.39	0.04	0.04	0.02	0.08	5.44	371	34.2	41.8	22.4	0.245	16.595
Indicated	1,369.1	0.41	0.03	0.05	0.03	0.11	5.93	5,590	463	732	460	4.762	261.145
M+I	1,463.9	0.41	0.03	0.05	0.03	0.11	5.90	5,961	497.4	773.7	482.4	5.008	277.740
Inferred	406.1	0.30	0.00	0.10	0.00	0.10	5.1	1,247	123	311	175	1.3	66.9

Note: Figures reported are rounded which may result in small tabulation errors.

The Copper Equivalent basis for the reporting of resources has been compiled on the following basis:

$$\text{CuEq Grade} = (\text{Ag Grade} * \text{Ag Price} + \text{Au Grade} * \text{Au Price} + \text{Cu Grade} * \text{Cu Price} + \text{Pb Grade} * \text{Pb Price} + \text{Zn Grade} * \text{Zn Price} + \text{Mo Grade} * \text{Mo Price}) / \text{Copper Price}$$

## Mineral Reserves Estimate

A Mineral Reserve estimate, dated November 20, 2013, has been independently verified by Mining One Pty Ltd. in accordance with the CIM Definitions Standards under NI 43-101.

### Jiama Project Statement of NI 43-101 Mineral Reserve Estimate as of December 31, 2018

Class	Quantity Mt	Cu %	Mo %	Pb %	Zn %	Au g/t	Ag g/t	Cu Metal (kt)	Mo Metal (kt)	Pb Metal (kt)	Zn Metal (kt)	Au Moz	Ag Moz
Proven	20.8	0.61	0.05	0.05	0.03	0.21	8.99	126.4	9.5	10.3	6.9	0.140	6.026
Probable	398.4	0.56	0.03	0.13	0.08	0.18	11.21	2,427.9	128.2	548.2	317.3	2.285	143.574
P+P	419.2	0.61	0.03	0.13	0.08	0.18	11.10	2,554.3	137.8	558.5	324.2	2.425	149.600

Notes:

1. All Mineral Reserves have been estimated in accordance with the JORC code and have been reconciled to CIM standards as prescribed by the NI 43-101.

2. Mineral Reserves were estimated using the following mining and economic factors:

Open Pits:

- 5% dilution factor and 95% recovery were applied to the mining method;
- an overall slope angles of 43 degrees;
- a copper price of US\$ 2.9/lbs;
- an overall processing recovery of 88 - 90% for copper

Underground:

- 10% dilution added to all Sub-Level Open Stopping;
- Stope recovery is 87% for Sub-Level Open Stopping;
- An overall processing recovery of 88 - 90% for copper.

3. The cut-off grade for Mineral Reserves has been estimated at copper equivalent grades of 0.3% Cu (NSR) for the open pits and 0.45% Cu (NSR) for the underground mine.

## LIQUIDITY AND CAPITAL RESOURCES

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing the expansion of its mining and mineral processing operations, exploration activities and acquisition of exploration and mining rights. The Company's principal sources of funds have been proceeds from borrowing from commercial banks in China, equity financings, and cash generated from operations. The Company's liquidity primarily depends on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

At September 30, 2019, the Company had an accumulated surplus of US\$199.4 million, working deficit of US\$389.8 million and borrowings of US\$1,205.2 million. The Company's cash balance at September 30, 2019 was US\$192.5 million.

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments. The Company's borrowings are comprised of US\$502.6 million of 3.25% unsecured bonds maturing on July 6, 2020, which are included in the current portion of borrowings, and US\$56.5 million of short term debt facilities with interest rates ranging from 2.75% to 4.51% per annum arranged through various banks in China. In addition, on November 3, 2015, the Company entered into a Loan Facility agreement with a syndicate of banks, led by Bank of China. The lenders agreed to lend an aggregate principle amount of RMB 3.98 billion, approximately US\$613 million with the interest rate of 2.83% per annum currently. The People's Bank of China Lhasa Center Branch's interest rate serves as a benchmark for the interest on the drawdowns. The bank's interest rate is then discounted by 7 basis points (or 0.07%) to calculate the interest on the drawdowns. The proceeds from the Loan Facility are to be used for the development of the Jiama Mine. The loan is secured by the mining rights for the Jiama Mine. As of September 30, 2019 the Company has drawdown RMB3.645 billion, approximately US\$515.3 million under the Loan Facility. The Company believes that the availability of debt financing in China at favorable rates will continue for the foreseeable future. The Company is currently assessing various strategic alternatives for the repayment of its 3.5% unsecured bonds maturing on July 6, 2020. As part of this assessment, the Company is planning on engaging an underwriter and is pursuing a new bond issuance while also at the same time reviewing other financing options.

The Company continues to review and assess its assets for impairment as part of its financial reporting processes. To date, the assessment carried out by the Company support the carrying values of the Company's assets and no impairment has been required. However, the management of the Company continues to evaluate key assumptions on estimates and management judgements in order to determine the recoverable amount of the CSH Mine and the Jiama Mine.

### Cash flows

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the three and nine months ended September 30, 2019 and September 30, 2018.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Net cash from operating activities	64,368	53,557	127,906	109,646
Net cash (used in) investing activities	(44,785)	(48,230)	(91,393)	(68,279)
Net cash (used in) from financing activities	(20)	31,257	19,702	(2,027)
Net increase in cash and cash equivalents	19,563	36,584	56,215	39,340
Effect of foreign exchange rate changes on cash and cash equivalents	(2,295)	(1,685)	(1,698)	(3,133)
Cash and cash equivalents, beginning of period	175,245	148,626	137,996	147,318
<b>Cash and cash equivalents, end of period</b>	<b>192,513</b>	<b>183,525</b>	<b>192,513</b>	<b>183,525</b>

### ***Operating cash flow***

For the three months ended September 30, 2019, net cash inflow from operating activities was US\$64.4 million which is primarily attributable to (i) depreciation and depletion of US\$39.2 million (ii) increase in accounts payable of US\$35.9 million (iii) decrease in accounts receivables of US\$13.7 million and (iv) finance cost of US\$10.6 million, partially offset by (i) decrease in contract liabilities of US\$30.9 million and (ii) interest paid of US\$13.8 million.

For the nine months ended September 30, 2019, net cash inflow from operating activities was US\$127.9 million which is primarily attributable to (i) depreciation and depletion of US\$109.1 million (ii) finance cost of US\$32.1 million (iii) amortization of mining rights of US\$23.6 million and (iv) increase of accounts payable of US\$11.3 million, partially offset by (i) loss before income tax of US\$29.6 million and (ii) interest paid of US\$34.1 million.

### ***Investing cash flow***

For the three months ended September 30, 2019, the net cash outflow from investing activities was US\$44.8 million which is primarily attributable to (i) payment for the acquisition of property, plant and equipment of US\$36.7 million and (ii) placement of restricted cash balances of US\$10.6 million, partially offset by release of restricted bank balance of US\$2.1 million.

For the nine months ended September 30, 2019, the net cash outflow from investing activities was US\$91.4 million which is primarily attributable to (i) payment for the acquisition of property, plant and equipment of US\$92.8 million, (ii) placement of restricted cash balances of US\$18.0 million, partially offset by release of restricted bank balance of US\$18.3 million.

### ***Financing cash flow***

For the three months ended September 30, 2019, the net cash inflow from financing activities was US\$20,000 which is primarily attributable to payment for lease of US\$20,000.

For the nine months ended September 30, 2019, the net cash inflow from financing activities was US\$19.7 million which is primarily attributable to proceeds from borrowings of US\$81.2 million offset by repayment of borrowings of US\$61.3 million.

### **Expenditures Incurred**

For the nine months ended September 30, 2019, the Company incurred mining costs of US\$79.7 million, mineral processing costs of US\$100.4 million and transportation costs of US\$7.3 million.

### **Gearing ratio**

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at September 30, 2019, the Company's total debt was US\$1,205 million and the total equity was US\$1,449 million. The Company's gearing ratio was therefore 0.83 as at September 30, 2019 and 0.84 as at June 30, 2019.

### **Restrictive covenants**

The Company is subject to various customary conditions and covenants under the terms of its financing agreements.

Under a Loan Facility agreement entered on November 3, 2015 between the Company and a syndicated of banks, led by Bank of China pursuant to which the banks agreed to lend to Tibet Huatailong, the Company's subsidiary, the aggregate principle amount of RMB 3.98 billion (approximately US\$613 million), the debt to assets ratio of Tibet Huatailong should be less than 75% during the term of the agreement.

## **SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLAN FOR MATERIAL INVESTMENTS OF CAPITAL ASSETS**

Other than as disclosed elsewhere in this MD&A or in the unaudited condensed consolidated financial statements for the nine months ended September 30, 2019, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the nine months ended September 30, 2019. Other than as disclosed in this MD&A, there was no plan authorized by the Board for other material investments or additions of capital assets at the date of this MD&A.

## CHARGE ON ASSETS

Other than as disclosed elsewhere in this MD&A and annual consolidated financial statements, none of the Group's assets were pledged as at September 30, 2019.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation. However, the Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Refer to Note 32, Financial Instruments, in the annual consolidated financial statements for the year ended December 31, 2018.

## COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include principal payments on the Company's bank loans and syndicated loan facility, material future aggregate minimum operating lease payments required under operating leases and capital commitments in respect of the future acquisition of property, plant and equipment and construction for both the CSH Mine and the Jiama Mine.

The Company has leased certain properties in China and Canada, which are all under operating lease arrangements and are negotiated for terms of between one and seventeen years. The Company is required to pay a fixed rental amount under the terms of these leases.

The Company's capital commitments relate primarily to the payments for purchase of equipment and machinery for both mines and payments to third-party contractors for the provision of mining and exploration engineering work and mine construction work for both mines. The Company has entered into contracts that prescribe such capital commitments; however, liabilities relating to them have not yet been incurred. Refer to Note 33, Commitments and Contingencies, in the annual consolidated financial statements for the year ended December 31, 2018.

On July 7, 2017, the Company, through its wholly owned subsidiary Skyland Mining (BVI) Limited, issued bonds on the HKSE, denominated U.S. dollar, with an aggregate principal amount of US\$500 million. The Bonds were issued at a price of 99.663%, bearing a coupon of 3.25% per annum with a maturity date of July 6, 2020. Interest is payable in semi-annual installments on January 6 and July 6 of each year.

The following table outlines payments for commitments for the periods indicated:

	<b>Total</b>	<b>Within</b>	<b>Within</b>	<b>Over 5 years</b>
	<b>US\$'000</b>	<b>One year</b>	<b>Two to five years</b>	<b>US\$'000</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Principal repayment of bank loans	<b>702,682</b>	56,554	355,582	290,546
Repayment of bonds including interest	<b>502,555</b>	502,555	-	-
<b>Total</b>	<b>1,205,237</b>	<b>559,109</b>	<b>355,582</b>	<b>290,546</b>

In addition to the table set forth above, the Company has entered into service agreements with third-party contractors such as China Railway for the provision of mining and exploration engineering work and mine construction work for the CSH Mine. The fees for such work performed and to be performed each year varies depending on the amount of work performed. The Company has similar agreements with third party contractors for the Jiama Mine.

## RELATED PARTY TRANSACTIONS

CNG owned 39.3 percent of the outstanding common shares of the Company as at September 30, 2019 and September 30, 2018.

The Company had major related party transactions with the following companies related by way of shareholders and shareholder in common:

The Company's subsidiary, Inner Mongolia Pacific is a party to a non-exclusive contract for the purchase and sale of doré with CNG (the "Dore Sales Contract") pursuant to which Inner Mongolia Pacific sells gold doré bars to CNG. The pricing is based on the monthly average price of gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period. The Dore Sales Contract has been in effect since October 24, 2008 and has been renewed for a current term that commenced on January 1, 2018 and expires on December 31, 2020, which renewal was approved by the Company's shareholders on June 28, 2017.

Revenue from sales of gold doré bars to CNG of US\$152.2 million for the nine months ended September 30, 2019 increased from US\$134.7 million for the nine months ended September 30, 2018.

The Company is also a party to a Product and Service Framework Agreement with CNG, pursuant to which CNG provides construction, procurement and equipment financing services to the Company and also purchases the copper concentrates produced at the Jiama Mine. The quantity of copper concentrates, pricing terms and payment terms may be established from time to time by the parties with reference to the pricing principles for connected transactions set out under the Product and Service Framework Agreement. On June 28, 2017, the Supplemental Product and Service Framework Agreement was approved and extended to expire on December 31, 2020. For the nine months ended September 30, 2019, revenue from sales of copper concentrate and other products to CNG was US\$68.2 million, compared to US\$116.5 million for the same period in 2018.

For the nine months ended September 30, 2019, construction services of US\$6.9 million were provided to the Company by subsidiaries of CNG (US\$10.6 million for the nine months ended September 30, 2018).

In addition to the aforementioned major related party transactions, the Company also obtains additional services from related parties in its normal course of business, including a Deposit Services Agreement and Loan Agreement entered into on March 25, 2019 among the Company and China Gold Finance.

## **PROPOSED TRANSACTIONS**

The Board of Directors has given the Company approval to conduct reviews of a number of projects that may qualify as acquisition targets through joint venture, merger and/or outright acquisitions. The Group did not have any material acquisition and disposal of subsidiaries and associated companies in the nine months ended September 30, 2019. The Company continues to review possible acquisition targets.

## **CRITICAL ACCOUNTING ESTIMATES**

In the process of applying the Company's accounting policies, the Directors of the Company have identified accounting judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the audited annual consolidated financial statements.

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 4 of the audited annual consolidated financial statements for the year ended December 31, 2018.

## **CHANGE IN ACCOUNTING POLICIES**

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the audited annual consolidated financial statements as at December 31, 2018.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company holds a number of financial instruments, the most significant of which are equity securities, accounts receivables, accounts payables, cash and loans. The financial instruments are recorded at either fair values or amortized amount on the balance sheet.

The Company did not have any financial derivatives or outstanding hedging contracts as at September 30, 2019.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As at September 30, 2019, the Company had not entered into any off-balance sheet arrangements.

## **DIVIDEND AND DIVIDEND POLICY**

The Company has not paid any dividends since incorporation and does not currently have a fixed dividend policy. The Board of Directors will determine any future dividend policy on the basis of, among others things, the results of operations, cash flows and financial conditions, operating and capital requirements, the rules promulgated by the regulators affecting dividends in both Canada and Hong Kong and at both the TSX and HKSE, and the amount of distributable profits and other relevant factors.

Subject to the British Columbia Business Corporations Act, the Directors may from time to time declare and authorize payment of such dividends as they may deem advisable, including the amount thereof and the time and method of payment provided that the record date for the purpose of determining shareholders entitled to receive payment of the dividend must not precede the date on which the dividend is to be paid by more than two months.

A dividend may be paid wholly or partly by the distribution of cash, specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways. No dividend may be declared or paid in money or assets if there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

## **OUTSTANDING SHARES**

As of September 30, 2019 the Company had 396,413,753 common shares issued and outstanding.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for the design of disclosure controls and procedures (“DC&P”) and the design of internal control over financial reporting (“ICFR”) to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company’s certifying officers. The Company’s Chief Executive Officer and Chief Financial Officer have each evaluated the Company’s DC&P and ICFR as of September 30, 2019 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of September 30, 2019, and provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company’s Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to evaluate the Company’s ICFR as of September 30, 2019 and have concluded that these controls and procedures were effective as of September 30, 2019 and provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the nine months ended September 30, 2019, there were no changes in the Company’s DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **RISK FACTORS**

There are certain risks involved in the Company’s operations, some of which are beyond the Company’s control. Aside from risks relating to business and industry, the Company’s principal operations are located within the People’s Republic of China and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Readers of this MD&A should give careful consideration to the information included in this document and the Company’s audited annual consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company’s mineral properties, and litigation. China Gold International’s business, financial condition or results of operations could be materially and adversely affected by any of these risks. For details of risk factors, please refer to the Company’s annual audited consolidated financial statements, and Annual Information Form filed from time to time on SEDAR at [www.sedar.com](http://www.sedar.com).

## **QUALIFIED PERSON**

Disclosure of scientific or technical information in this MD&A was approved by Mr. Zhongxin Guo, P.Eng. the Company’s Chief Engineer and a Qualified Person (“QP”) for the purposes of NI 43-101.

November 14, 2019